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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**DIRECT TESTIMONY OF SANDER A. GLICK
ON BEHALF OF THE
RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.**

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1 **Autobiographical Sketch**

2 My name is Sander A. Glick. I co-manage the Economic Systems practice
3 at Project Performance Corporation (PPC), a consulting firm based in McLean,
4 Virginia. PPC provides economic and technology consulting services to private
5 and public sector clients. I joined PPC in 1994 as an Analyst and am now a
6 Program Manager. At PPC, I have worked on a number of economic and cost
7 issues for mailer associations, the Department of Defense, and the Department
8 of Energy.

9 In Docket No. R97-1, I testified on behalf of the Magazine Publishers of
10 America (MPA) regarding the special service fee for Qualified Business Reply
11 Mail (QBRM) and the appropriate method for distributing rural carrier costs to
12 mail classes and subclasses. In this case, I am also testifying on behalf of the
13 Association for Postal Commerce (PostCom) and MPA. I am currently serving as
14 an industry representative on the Mailers' Technical Advisory Committee's
15 (MTAC) Package Integrity Work Group.

16 I attended the Maxwell School of Citizenship and Public Affairs at
17 Syracuse University, where I received a Masters of Public Administration in 1994,
18 and Carleton College, where I received a Bachelors Degree, magna cum laude,
19 in Physics in 1993. I am a member of the American Economic Association and
20 the System Dynamics Society.

1 **I. Purpose and Scope of Testimony**

2 In Docket No. R97-1, the Postal Service proposed and the Rate
3 Commission recommended a residual shape surcharge for Standard (A) mail. In
4 that case, the issue of whether to consider revenue differences between flats and
5 parcels when determining the appropriate surcharge received considerable
6 attention. In its decision, the Commission chose to ignore revenue differences
7 because there was not a sufficient theoretical basis to justify its use.

8 There remains a serious equity problem where the Service
9 has demonstrated that letters and flats cross-subsidize
10 parcels. However, the record does not provide sufficient
11 evidence to determine whether revenue should be
12 included because no party has discussed this issue within
13 the overall context of shape differentials within Standard A
14 mail. Clearly, reducing the cost difference between flats
15 and parcels by the corresponding revenue difference
16 departs from the traditional procedure for setting the rate
17 differential between letters and nonletters. Departing from
18 tradition is not a sufficient cause to reject the consideration
19 of revenue as, generally, the theory of setting Postal rates
20 at the rate category level has evolved over time. Further,
21 this issue arose because parcels revenues were not
22 compensatory and continue to be non-compensatory.
23 Consequently, the Commission cannot permanently rule
24 out the use of revenues; however, in the instant case,
25 there is not a sufficient theoretical basis justifying its use.
26 Accordingly, the Commission will use the traditional
27 method of treating the surcharge as a passthrough of
28 shape-related cost differences. Op. R97-1 at 426.

29 In this testimony, I provide a theoretical basis for using revenue
30 differences in determining the rate differential.

1 **II. Theoretical Basis**

2 In Docket No. MC95-1, the Commission articulated the appropriate
3 theoretical basis for determining worksharing-related cost avoidances, stating:

4 The clearly capturable cost avoidance standard involves a
5 comparison of unit costs between two pieces of mail that
6 have exactly the same cost characteristics, except that one
7 has a worksharing feature for which the discount is offered.
8 Basing the cost differential on the "exact piece"
9 comparison is intended to limit the incentive to workshare
10 to the amount that worksharing actually saves the Postal
11 Service, **all else being equal** (emphasis added). Op.
12 R97-1 at IV-94.

13 Mr. Moeller testifies that he has used this "traditional passthrough"
14 approach in setting the residual shape surcharge in this case. USPS.T-35 at 7.
15 The analogy to work sharing cost savings is inapposite. The more appropriate
16 analogy is to the methods used by the Commission to reflect cost (and rate)
17 differences resulting from shape, among the other cost-causing characteristics,
18 of different recognizable types of mail pieces. In this type of analysis, to perform
19 the equivalent of an "exact piece" comparison, one must control for cost
20 differences caused by all characteristics other than shape.

21 In the particular case of determining the cost difference between Standard
22 (A) flats and parcels, the cost characteristics that must be held equal include
23 depth of presort and depth of dropship as well as weight. The fact that the
24 Standard (A) rate design is based on all three of these characteristics is evidence
25 that all three are important cost characteristics.

26 **III. Witness Crum's Method**

27 Witness Crum's general method for determining the nonletter cost
28 difference was to first estimate the full cost difference between flats and parcels
29 using costs from Cost and Revenue Analysis (CRA) systems and then to perform
30 a correction to account for differences in cost characteristics. While I have not
31 examined his methods or his data in detail, this general approach is reasonable.
32 There was, however, a problem in his implementation: although he adjusted the

1 cost difference for depth of presort and depth of dropship, he did not correct it for
2 differences in weight. USPS-T-27 at 8-11.

3 While his omission may be reasonable for comparisons of mail of
4 approximately the same weight, it is inappropriate in this case because the
5 average Standard (A) Commercial parcel weighs 2.5 times as much as the
6 average Standard (A) Commercial flat. USPS-T-27, Attachment F, Table 5 at 1.
7 Having a pound rate as well as including weight-related cost differences in
8 setting the residual shape surcharge amounts to double-charging parcels for
9 weight-related costs.

10 **IV. Correcting for Differences in Weight**

11 Lacking reliable cost data by shape and weight increment, the appropriate
12 approach for correcting the nonletter cost difference for differences in weight is to
13 use the weight-related revenue difference between flats and parcels as a proxy
14 for the weight-related cost difference. Based upon current rates, this weight-
15 related revenue difference is approximately 20 cents per piece.¹

16 Furthermore, this method for considering weight-related revenue
17 differences is fully consistent with the "traditional procedure for setting the rate
18 differential between [Standard (A)] letters and nonletters." Op. R97-1 at 426. In
19 that situation, however, there is no weight-related revenue difference because
20 the Standard (A) letter-nonletter differential is only relevant for piece-rated mail.
21 Since there is no pound rate for piece-rated mail, there is no weight-related
22 revenue difference.

¹Calculated by multiplying the .32-pound (5.1 ounce) weight difference between Standard (A) Commercial flats and parcels (USPS-T-27, Attachment F, Table 5 at 1) by the Standard (A) pound rates for Basic, DBMC, and DSCF, which contain 99 percent of Standard (A) Commercial parcels.